

Testimony of Leo W. Gerard
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Before the U.S. China Security Review Commission
August 2, 2001

Thank you very much, Mr. Chairman. My name is Leo Gerard. I am the International President of the United Steelworkers of America and I appreciate the opportunity to testify on behalf of our members regarding the economic and security implications of the bilateral economic relationship between the United States and China.

The United Steelworkers represents approximately 690,000 members in the United States and Canada, including most of the workers employed in the steel industry in the United States. The steel industry has historically played a key role in maintaining U.S. national defense and security.

During the last three years, the steel industry has suffered from increased levels of imports that have reduced domestic shipments, devastated employment, and caused prices to fall to their lowest levels in over 20 years.

Although the Bush Administration has initiated an investigation under Section 201 of the nation's trade laws into the damage that imports have done to the steel industry, as of today, 20 steel companies have filed for bankruptcy protection and several others remain on the brink of doing so.

The purpose of my testimony this morning is to discuss the growth of steel imports from China, the abuses of workers rights that are taking place in China and the threat that additional steel imports could pose to American steel workers and industry.

The Steel Industry in China

China produces more steel today than any other nation in the world. China produced 126 million metric tonnes of crude steel in 2000, compared to 100 million metric tonnes by the United States.

By almost all accounts, the growth and transformation of China's steel industry has been nothing short of phenomenal, as is shown in the attached graph. China's steel production has increased three-fold since 1980 when it produced just 37 million metric tonnes.

China lacks the competitive advantages of other major steel producers. Its industry is fragmented. It produces an overly narrow range of products and much is of poor product quality. Its labor productivity is low. And its iron ore reserves are low-grade and costly to concentrate.

So how has China, despite these disadvantages, achieved the remarkable growth in its steel industry? China's steel industry enjoys three major advantages: (1) it has low labor costs as the result of its violations of workers' rights; (2) it has access to low cost capital through state-ownership; and (3) much of the industry operates under lax environmental standards.

Workers Rights in China

The steel industry in China employs approximately 2.3 million workers, who earn an average of approximately U.S.\$1.25 per hour worked.

Unfortunately, steelworkers in China are unable to exercise an independent voice in their workplace, unable to collectively bargain and may be imprisoned for forming labor unions or participating in social protests.

While China reports that there were 130 million members of trade unions in China in 1999, none belonged to independent unions. China's 1992 Trade Union Law prevents the establishment of unions that are independent of the public authorities and ruling party. Only one union is allowed at any level: the All-China Federation of Trade Unions (ACFTU). Officials of the ACFTU are appointed by the Chinese Communist Party and remain obligated to the central party.

The right to strike was removed from China's constitution in 1982. Despite this, the number of labor disputes has risen each year since 1992, according to a report by the Independent Confederation of Free Trade Unions (ICFTU) to the International Labor Organization. Strikers and organizers can be detained or sent to forced labor camps for up to three years without a trial.

There were 240,000 people in forced labor camps in 1999, according to Chinese government statistics. The ICFTU estimates that as many as 60,000 Chinese were being held for disturbances of public order in 1999. This was in addition to the 1,900 individuals being held at the end of 1999 that had actually been convicted of counterrevolutionary crimes.

The ICFTU has documented widespread examples where workers in China have been confined to employer housing, locked-in from the outside, their personal identification confiscated upon arrival at the enterprise. Commercial manufacturing facilities are frequently surrounded by barbed wire and protected by armed guards on watchtowers.

State Ownership and Subsidies

China's largest steel companies are state-owned. For these and other firms, the central government manages and controls all decisions on expansion and replacement of larger units of equipment.

During the last two years, China's government has funded the construction of three new thin-slab casting and hot rolling mills with 4 million metric tonnes of annual capacity.

The plants use world-class technology -- the same as used by Nucor here in the United States – and will produce hot rolled strip using only 2.5 man-hours per tonne.

According to the International Trade Administration's report to the President on Global Steel Trade, China is expected to spend U.S. \$6 billion to upgrade its steel industry over the next several years in an effort to improve its competitiveness for China's entry into the WTO. Much of this aid will go to China's largest steelmakers, over half in the form of low-interest loans.

Environmental Standards in China

Although China has reduced the production of steel in less efficient, more heavily polluting open hearth furnaces, approximately 20 million metric tonnes of its raw steel production still comes from 244 small steel plants. These small steelmakers likely have little or no pollution control technology.

China has increased its production of blast furnace and foundry coke through greater use of environmentally harmful beehive ovens. Furthermore the American Coke and Coal Chemicals Institute has estimated that about 25 percent or 6,000 of the workers producing and distributing foundry coke for export in China may be children, who are paid wages of \$20 per month.

Productivity and Labor Costs

Although China's steel industry has grown dramatically over the last two decades, it has not been due to efficient production.

According to World Steel Dynamics, the U.S.-based steel consulting firm, an average steel mill in China required 21.8 hours to produce and ship a metric tonne of steel in 1999, compared to 4.6 hours in Canada, 4.1 hours in the United States and 4.0 hours in Japan. This is shown in the second attached graph.

But because steelworkers in China is paid just U.S.\$1.25 per hour, despite the poor productivity of most Chinese steel producers, employment costs average just US\$55 per tonne in China, compared to \$157 in the United States and \$162 per tonne in Japan.

But even at just U.S.\$1.25 per hour, steelworkers in China earn 5 times that of the average manufacturing worker in China.

China Steel Trade

Despite the size of its steel industry, China is a net importer of steel. In 1999, China imported 16.9 million tonnes of finished and semi-finished steel and exported 6.0 million tonnes of finished and semi-finished steel.

According to China's State Bureau of Metallurgical Industry, China's steel production and demand are far from balanced. China overproduces wire rod, hot rolled bar, plate

and welded tubes. Yet, China must import higher grade products, such as hot rolled sheet, cold rolled sheet, oil-country tubular goods, stainless steel, and tool steel.

As shown in the third and fourth graphs attached to my testimony, China exported 6 million metric tonnes of finished and semi-finished steel in 2000, nearly 130% more than in 1990. Approximately 20% or 1.4 million metric tonnes of China's exports went to the United States.

Despite a domestic shortage of hot rolled steel, China exported 350,000 metric tonnes to the United States in 2000 -- or 26% of China's exports to the U.S. The other major products exported from China to the U.S. include semi-finished steel, standard pipe, reinforcing bar, cut-to-length plate, and oil-country tubular goods.

The average steel import price from China is usually substantially below the average import price for the same product from other nations. For example, the 350,000 metric tonnes of hot rolled steel imported from China had an average price of \$285 per tonne. This was about \$20 per tonne less than the average import price and \$35 less than the average market price.

Not surprisingly, the European Union, Canada and United States all filed steel dumping cases against Chinese steelmakers between 1996 and 2000.

Trade cases are currently pending in the United States against China's steelmakers involving blast furnace coke, hot rolled steel, steel concrete reinforcing bar and foundry coke. The U.S. and China entered into a suspension agreement in October 1997, limiting exports to the U.S. of certain cut-to-length carbon steel plate until November 1, 2002.

So despite the modest levels of U.S. steel imports from China, there is ample evidence for concern regarding the steel trade between the U.S. and China.

Concerns Regarding Continued Growth of Imports from China

While the United States imported 1.4 million metric tonnes of steel products from China in 2000, there is overwhelming evidence to suggest that steel imports from China will continue to increase, without any accompanying increase in U.S. steel exports to China.

China is a formidable player in the world steel market. It is the world's largest steel producer and the largest producer of iron ore. China's steel producers have low labor costs perpetuated by the government backed suppression of worker's rights, have access to low-cost government capital, are not subject to the same rigorous environmental standards as many of their international competitors.

The trend of rising steel imports from China is likely to be reinforced by the efforts of central planners to reduce overproduction of certain steel products or to maintain production and employment.

China's emergence as a growing presence in world steel trade has the potential to create serious distortions in the international marketplace and threaten productive domestic capacity in the United States.

This is of enormous concern to steelworkers in the United States. To the extent the United States has elected to pursue a policy with China of greater openness and economic exchange, efforts to assist China with economic development should be conditioned upon compliance with international labor standards.

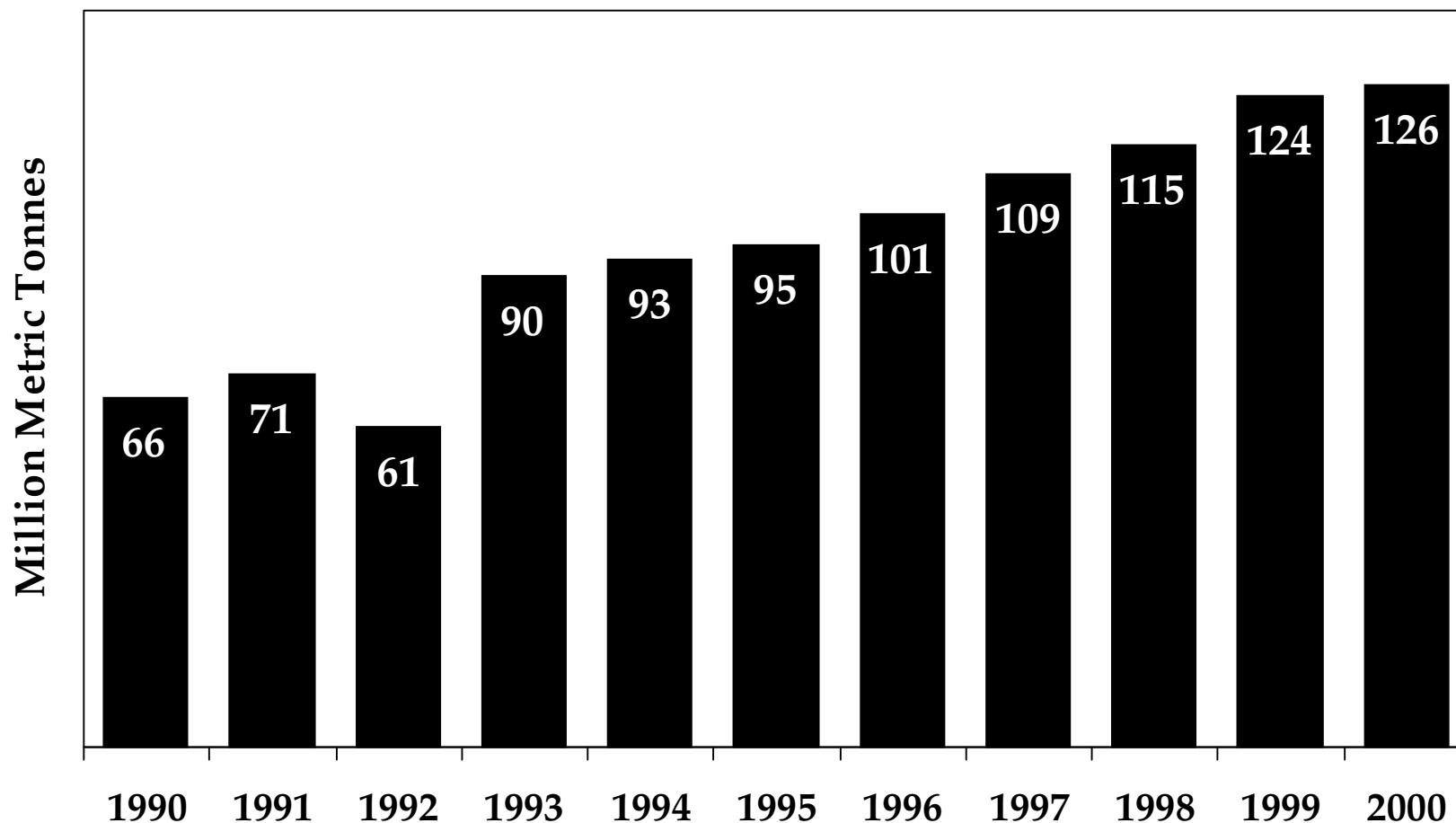
While it would be wrong to attempt to deny China access to the tools of economic development, such as a modern and efficient steel industry, the United States should not allow multi-national corporations or state-owned enterprises to compete in the international marketplace through the denial of worker rights and the use of forced labor.

I echo the comments of AFL-CIO Secretary-Treasurer Richard Trumka, who, in his testimony before this Commission in June, urged you to recommend the use the leverage of our trade relationship and the influence of our investors to support the rights of Chinese workers and citizens, and to challenge the Chinese government to participate in a serious dialogue about reform.

Working people have rights to a organize to improve wages, working conditions and workplace health and safety -- be they in East Chicago, Illinois; Hamilton, Ontario; or Shanghai, China.

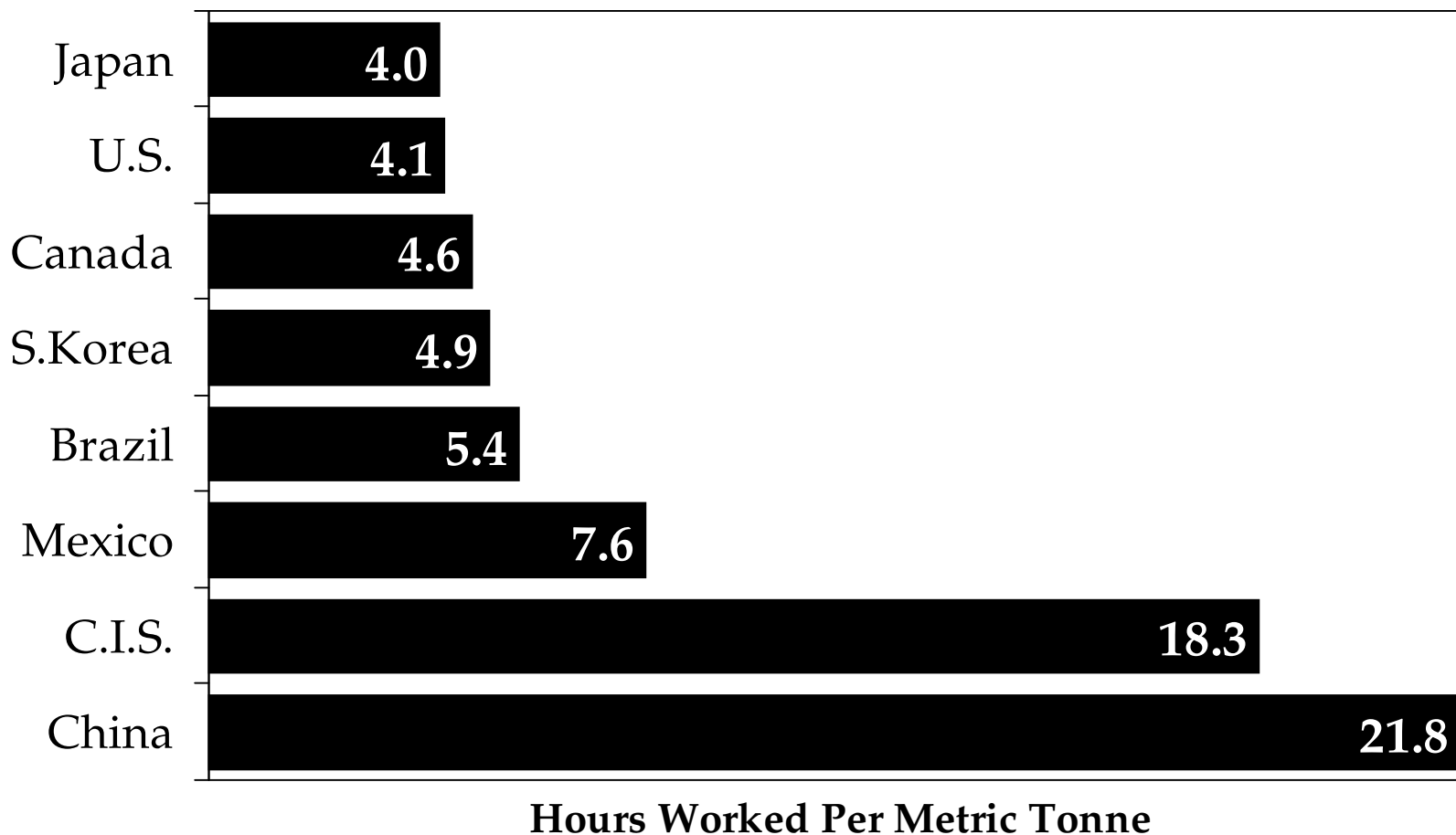
Thank you for this opportunity to discuss these important issues.

China Crude Steel Production



Source: International Iron and Steel Institute.

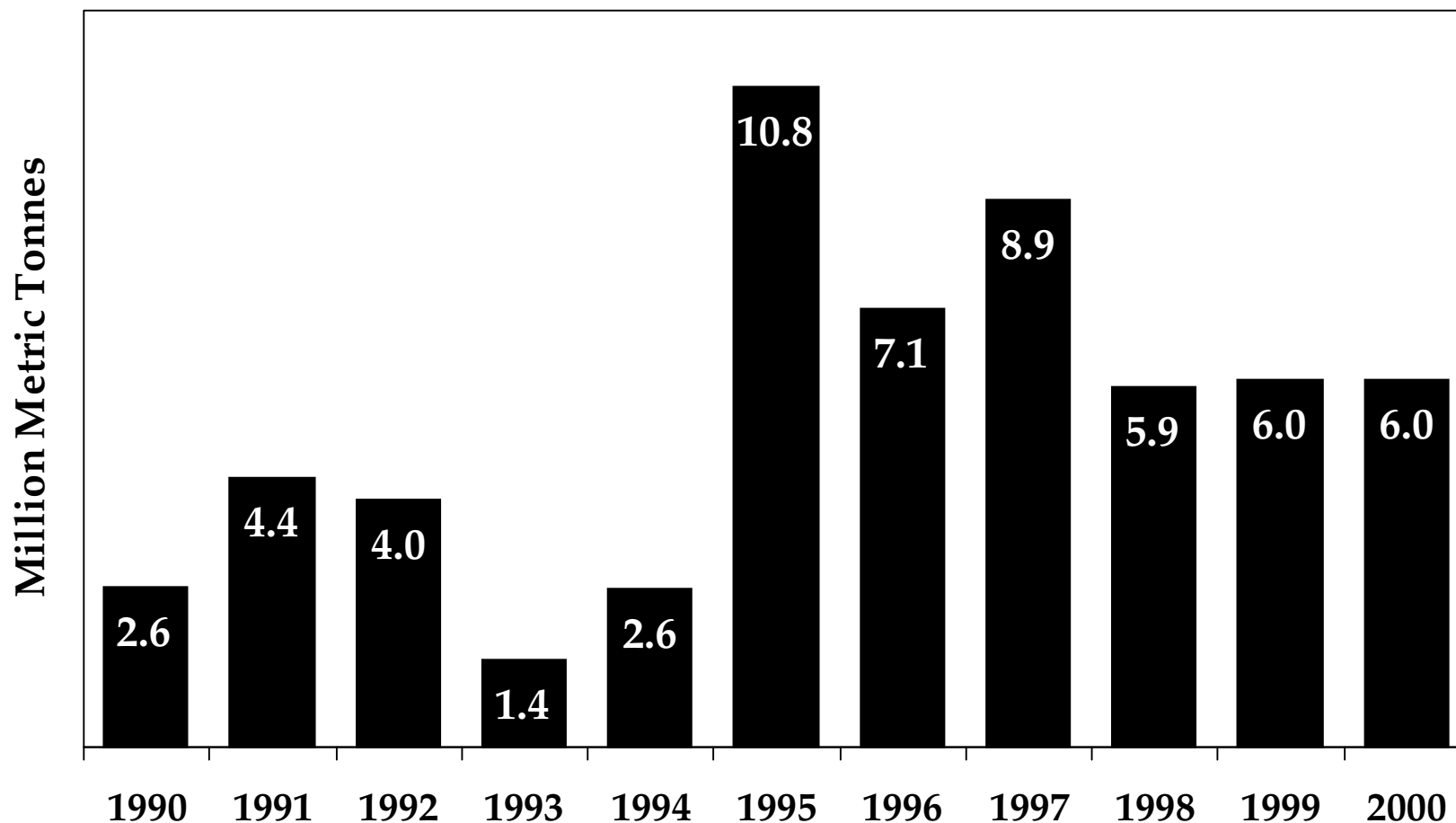
Comparative Labor Productivity



Note: Labor productivity for world cost curve reference plant comparisons as of April 2000.

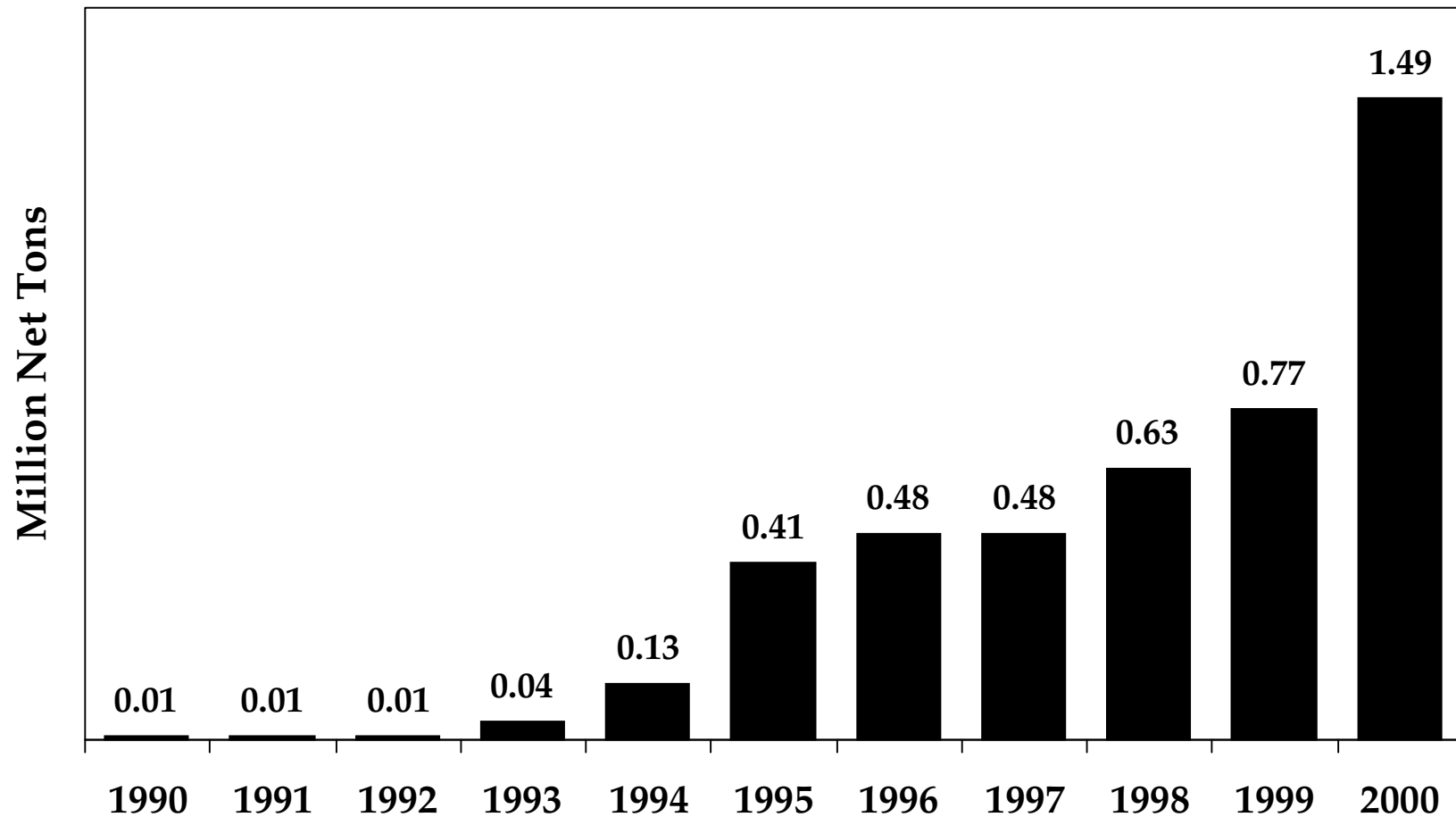
Source: World Steel Dynamics, Steel Strategist #26, July 2000, Exhibit K7, page 104.

China Steel Exports



Source: International Iron and Steel Institute.

U.S. Imports of Steel Mill Products From China



Source: American Iron and Steel Institute.

Selected China Steel Statistics

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Change 1990-99
Production of Crude Steel	66,349	71,000	60,935	89,539	92,613	95,360	101,237	108,911	114,588	123,709	86%
Production of Crude Steel Ingots	49,034	49,284	53,341	55,280	53,124	48,835	45,208	41,079	34,471	37,200	-24%
	74%	69%	88%	62%	57%	51%	45%	38%	30%	30%	
Production of Continuously Cast Steel	14,807	18,835	24,282	30,305	36,542	44,325	53,929	66,059	78,832	85,200	475%
	22%	27%	40%	34%	39%	46%	53%	61%	69%	69%	
Production of Liquid Steel for Castings	2,508	2,881	3,312	3,953	2,947	2,200	2,099	1,773	1,285	1,300	-48%
	4%	4%	5%	4%	3%	2%	2%	2%	1%	1%	
Production of Crude Steel in Oxygen Blown Converters	28,228	35,978	38,453	41,239	44,098	46,877	52,266	63,479	70,310	82,000	190%
	43%	51%	63%	46%	48%	49%	52%	58%	61%	66%	
Production of Crude Steel in Electric Furnaces	14,015	15,004	17,626	20,753	19,538	18,110	18,932	19,121	18,143	19,600	40%
	21%	21%	29%	23%	21%	19%	19%	18%	16%	16%	
Production of Crude Steel in Open Hearth Furnaces	13,157	13,092	13,992	14,446	13,849	13,084	12,610	9,696	5,437	2,100	-84%
	20%	18%	23%	16%	15%	14%	12%	9%	5%	2%	
Production of Hot Rolled Steel Products	51,532	56,382	66,943	77,075	84,275	89,798	85,513	94,903	105,084	119,574	132%
Production of Hot Rolled Long Products	31,687	34,648	42,548	49,204	54,246	55,755	55,177	57,018	66,286	65,406	106%
Production of Hot Rolled Flat Products	14,725	16,030	19,180	22,469	23,474	27,003	29,255	31,068	39,594	42,983	192%
Production of Railway Track Material	1,340	1,371	1,411	2,013	2,262	1,604	1,455	1,502	1,567	1,471	10%
Production of Heavy Sections	3,605	3,646	4,494	5,962	4,494	4,056	5,105	5,548	5,710	6,296	75%
Production of Light Sections	12,185	13,705	17,553	19,618	23,391	24,712	24,277	25,306	27,491	31,417	158%
Production of Concrete Reinforcing Bar					13,354	14,592	14,566	16,673			
Production of Hot Rolled Bar (Other Than Rebar)					7,021	6,997	5,886	5,004			
Production of Wire Rod	9,989	11,000	12,570	14,074	15,711	16,872	18,339	19,278	22,300	25,949	160%
Production of Electrical Sheet and Strip	673	606	688	762	812	745	766	844	825	888	32%
Production of Tin Mill Products				79							
Production of Tubes and Tube Fittings	4,320	4,929	5,837	5,788	7,362	8,228	7,640	9,343	7,973	7,966	84%
Production of Seamless Tubes	2,112	2,414	2,652	2,836	3,040	3,270	3,340	3,605	3,467	3,451	63%
Production of Welded Tubes	2,208	2,515	3,185	2,952	4,322	4,958	4,300	5,738	4,506	4,515	104%
Exports of Semi-Finished and Finished Steel	2,611	4,378	4,037	1,412	2,566	10,745	7,131	8,907	5,863	5,975	129%
Imports of Semi-Finished and Finished Steel	4,154	3,719	8,089	36,869	25,813	14,806	16,537	13,619	13,106	16,910	307%
Net Imports	1,543	(659)	4,052	35,457	23,247	4,061	9,406	4,712	7,243	10,935	609%
	2%	-1%	5%	27%	19%	4%	8%	4%	6%	8%	
Apparent Consumption of Crude Steel	68,279	70,181	85,939	133,056	120,882	100,242	112,422	114,449	122,992	136,395	100%
Apparent Consumption Per Capita (Kg Crude Steel)	59	60	73	111	100	82	91	92	98	108	82%
Apparent Consumption of Finished Steel	53,125	56,415	69,854	106,215	105,360	97,842	105,150	108,473	116,227	106,830	101%
Apparent Consumption Per Capita (Kg Crude Steel)	46.0	48.2	59.0	88.8	87.2	80.2	85.3	87.2	92.6	84.3	83%
Production of Iron Ore	179,344	190,558	209,762	226,352	250,696	261,919	252,283	268,623	222,236	209,340	17%
Imports of Iron Ore	14,191	19,035	25,172	33,020	37,343	41,150	43,874	55,106	51,771	55,274	290%
Imports of Scrap	115	134	1,240	3,130	2,203	1,393	1,292	1,829	2,021	3,340	2804%

Note: Figures in Thousand Metric Tonnes.

Source: *Steel Statistical Yearbook 2000*, International Iron and Steel Institute.

Imports of Steel Mill Products from China

by Product

	DECEMBER 2000, YEAR TO DATE				
	<u>CARBON</u>	<u>ALLOY</u>	<u>STAINLESS</u>	<u>TOTAL</u>	<u>%</u>
STEEL MILL PRODUCTS					
SHEETS HOT ROLLED	392,653	1,744		394,397	26%
BLOOMS, BILLETS AND SLABS	170,311	97	6	170,414	11%
STANDARD PIPE	166,273	24		166,296	11%
BARS - REINFORCING	163,125			163,125	11%
PLATES CUT LENGTHS	148,182	1,279		149,462	10%
OIL COUNTRY GOODS	92,558	14,961		107,519	7%
PLATES IN COILS	91,326	1,001		92,327	6%
STRUCTURAL SHAPES HEAVY	83,485	20		83,506	6%
SHEETS COLD ROLLED	45,897	155	3,253	49,305	3%
LINE PIPE	30,790	28		30,818	2%
WIRE DRAWN	25,546	579	2,840	28,966	2%
SHEETS & STRIP GALV ELECTROLYTIC	12,451			12,451	1%
WIRE RODS	8,156		2,160	10,317	1%
MECHANICAL TUBING	6,377	159		6,535	0%
BARS - LIGHT SHAPES	5,584	41		5,625	0%
SHEETS & STRIP GALV HOT DIPPED	4,829			4,829	0%
TOOL STEEL		3,829		3,829	0%
STAINLESS PIPE & TUBING			2,328	2,328	0%
PIPE & TUBING NONCLASSIFIED	1,904	100		2,005	0%
BARS-COLD FINISHED	1,301	126	69	1,495	0%
STRUCTURAL PIPE & TUBING	1,104			1,104	0%
BARS - HOT ROLLED	449	595	52	1,096	0%
STRIP - HOT ROLLED	774			774	0%
TIN PLATE	326			326	0%
PRESSURE TUBING	160			160	0%
RAILROAD ACCESSORIES	132			132	0%
STRIP - COLD ROLLED	11	2	26	39	0%
INGOTS AND STEEL FOR CASTINGS		20		20	0%
SHEETS & STRIP - ELECTRICAL		11		11	0%
TOTAL STEEL MILL PRODUCTS				1,489,211	100%

Note: Data in Net Tons.

Source: American Iron and Steel Institute.